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Kenya

Grain and Feed

Wheat Update

2003

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Report Highlights:

Although wheat is the second most important field crop production has stagnated (MY 2003/04) while consumption is on a general increase (MY 2003/04 765,000 tons). The stagnation is attributed to high production costs, high capital costs, lack of credit and general low level of technology adoption in the wheat industry. The rising demand has been caused mainly by high population growth and increased urbanization.

Includes PSD changes: No
Includes Trade Matrix: No
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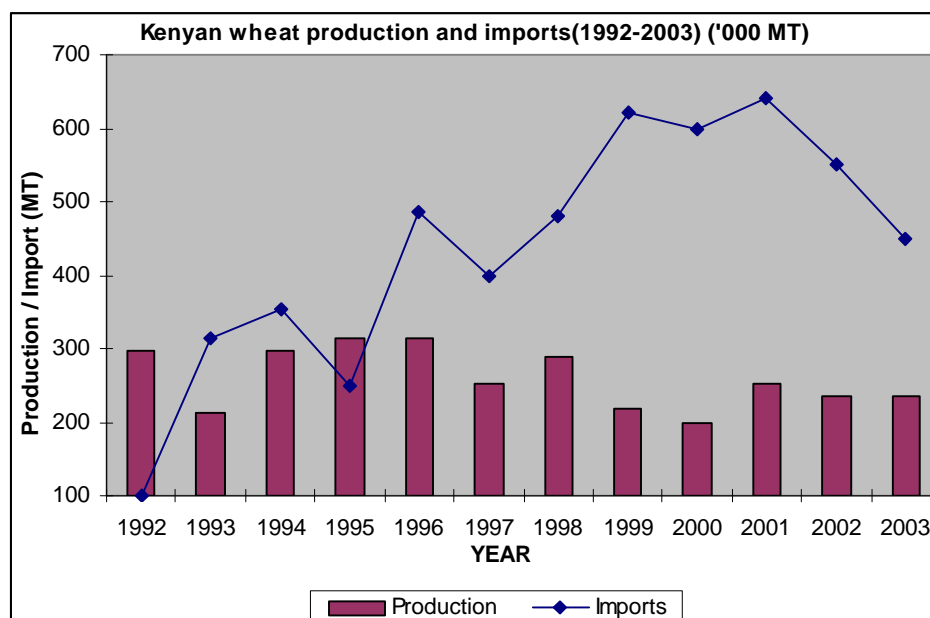
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Executive Summary

Although wheat is the second most important field crop after maize in Kenya, production has stagnated. Production for MY 2003/04 is estimated at 236,000 tons, a minimal increase from the previous year (234,000 tons). Consumption is estimated at 765,000 tons for the year 2003/04. The general stagnation in production is attributed to high production costs, high capital costs, lack of credit and general low level of technology adoption in wheat production. The rising demand has been caused mainly by high population growth and increased urbanization.

Production

Kenya's wheat production has been erratic ranging from an average of 258,200 tons in the 1990s to about 234,000 tons in 2003/04. In contrast to the stagnating production pattern wheat consumption has been on a general increase. The demand is caused by high population growth rates and increased urbanization. Kenya will continue to rely on imports to fill the production/consumption gap.



Note: Production figures are based on crop Year (June/July), Import figures are based on calendar year.

In Kenya wheat is produced by both small scale and large scale farmers. The large scale farmers dominate wheat production with a share of about 75 percent of the wheat area and 80 percent of production. Low productivity, high capital costs and inappropriate production technologies characterize wheat production in Kenya. These constraints make wheat production a high cost crop making Kenya a destination for imported wheat. The domestic cost of production varies between USD 142 to 240 per ton depending on the agro ecological zone and the scale of production. Average wheat yields in Kenya are about 2 tons per hectare.

Planting material availability

The major concern is availability of certified seed to wheat producers. Most of the farmers retain seed from the

previous harvest for planing. The large producers are involved in drying and developing uncertified treated seed and the seed market is developing slowly.

Consumption & Trade

In contrast to production wheat consumption in Kenya has been on a general increase. The increase in consumption is attributed to high population growth (estimated at 31.8 million, growing at 2 %) and increased urbanization. Currently wheat consumption is estimated at 765,000 tons. The gap between production and national demand is met through imports. The current wheat tariff is 35 %.

Wheat milling

Utilization of the national milling capacity (estimated at 1.2 - 1.5 million tons of wheat per year) is on a declining trend. Most of the millers are operating below capacity (estimated at 30 to 60 percent). Most have shifted from milling both maize and wheat to baking bread (cookies) and manufacturing of animal feeds.

Kenya produces only about 30 % of its annual wheat requirements, three quarters of which is soft wheat. The balance of the national consumption requirement is met through imports mainly from Australia and Argentina. In 2003 wheat imports from new origins i.e, Pakistan, Ukraine, Russia and China mainly because of non availability from the traditional suppliers. The millers import wheat on a quarterly basis with consignments averaging about 16,000 tons. The consignment is spread throughout the year to avoid tying funds in raw material stock.

Most of the millers use agents overseas to import their wheat mainly multi sourced due to quality and price differential considerations.

Market outlets for milled wheat products

The main products are baker's flour and home baking flour. Emerging of brand names is a common scenario as most millers compete for market for their products. The three major outlets are the bakers of bread and confectionaries (bakers flour and home baking), traders (sold to hotels and individuals to bake chapatis and mandazi and export markets in the region (mainly EAC and COMESA). The export market is shrinking due to competition from the neighboring countries, high taxes and duties imposed on wheat products and relatively high production costs occasioned by poor infrastructure and a host of other factors (i.e high bank interest rates).

Demand for wheat based products

Though no studies have been done to determine Kenya's demand for wheat based products analysts believe that bakeries have been experiencing a decline in production in the recent past. This is attributed to a switch in consumption to cassava, sweet potatoes and other carbohydrates sources mainly as a result of economic hardships. Emergence of small informal bakeries in the rural areas for the supply of bread, scones and cookies is however a sub sector growing. Analysts estimate 20 % of total supply of scones, bread and cookies is handled by this informal sector, possibly explaining the decline being experienced by the industrial bakeries.

Given the prevailing consumption trend the expectation is that Kenya will continue importing wheat in the coming years. Increased wheat imports into Kenya and declining exports of wheat based products poses two

challenges. Increased wheat imports dampen domestic prices which is a discentive to domestic production. Increased competition in Kenya's export markets reduces returns for Kenya millers and manufacturers.

Wheat Imports from the U.S. (1999 - 2003 (Jan - Sept))

	1999	2000	2001	2002	2003
Wheat unmilled	75,000	0.0	15,087	50,877	34,400
Wheat flour	0.0	5,015	0.0	8,076	1,094

Source: Dept of Commerce, U.S. Census Bureau, Foreign Trade Statistics

Though the major sources of wheat imports to Kenya are Argentina and Australia demand for U.S. wheat is still important albeit in small volumes. Wheat flour from the U.S. is imported by Kenya as food aid mainly for refugee consumption. Though commercial interest for U.S. wheat is growing, Kenya also receives monetized commodity aid (bought by millers). This is considered important for market development.

Policy

The biggest issue facing the wheat industry is whether or not it will be efficient enough to compete at world prices. The imposition of import duties (35 %) is used to protect domestic wheat producers. There is a trade off that government has to deal with. Protecting wheat producers through erection of high tariff walls hurts manufacturers of wheat based products, therefore denying the country potential export revenue from processed wheat products.